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ABSTRACT

The administration of the Pell Grant program by proprietary schools was assessed with a randomly selected sample of 35 schools from a universe of 1,165 schools. In addition to evaluating records of 761 students, officials who administered the program were interviewed. The following practices by schools did not comply with the Pell program requirements: (1) admitting unqualified students who had a greater tendency to drop out of school before completing their training than did qualified students; (2) not establishing and/or enforcing academic progress standards; (3) misrepresenting themselves to prospective students; and (4) making errors in computing and disbursing Pell Grant awards and refunds. It was found that about 83 percent of the schools failed to consistently enforce academic progress standards. Estimates by the General Accounting Office indicate that: 27,100 students were allowed to remain in school despite making little academic progress, and while receiving $68 million in federal assistance; 766 of the 1,165 schools in the universe had misrepresented themselves to varying degrees in recruitment; and 433 schools had computed some Pell Grant awards incorrectly. Appendices include the response of the Department of Education to this report and information on the study methodology. (SW)

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REPORT BY THE

Comptroller General

OF THE UNITED STATES

Many Proprietary Schools Do Not Comply With Department Of Education's Pell Grant Program Requirements

The Pell Grant program provides money to help needy individuals finance their postsecondary education. The objective of the program at proprietary schools--generally private, for profit vocational schools--is to prepare students for employment.

GAO found that many schools were not adhering to requirements for administering the program. Many schools

--admitted unqualified students who had a greater tendency than other students to drop out before completing training,

--allowed students to remain in school who did not meet academic progress standards,

--misrepresented themselves to prospective students, and

--made numerous errors in computing and disbursing Pell Grant awards and refunds.

Improved monitoring of proprietary schools is needed to better assure that they comply with the program requirements and that students obtain intended benefits.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-207683

The Honorable Paul Simon, Chairman
Subcommittee on Postsecondary Education
Committee on Education and Labor
House of Representatives

The Honorable Richard A. Gephardt
House of Representatives

In response to your request, this report presents the results of a broad assessment of the administration of the Pell Grant program by proprietary schools. It contains recommendations to the Secretary of Education for strengthening admission criteria for students enrolling in these schools and for improving monitoring and enforcement of proprietary school compliance with Pell Grant regulations.

As agreed with your offices, a copy of this report will be sent to Representative G. William Whitehurst. We plan no further distribution of the report until 30 days after issuance unless the report's contents are publicly announced earlier.

Charles A. Bowsher
Comptroller General
of the United States

REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

MANY PROPRIETARY SCHOOLS DO NOT COMPLY WITH DEPARTMENT OF EDUCATION'S PELL GRANT PROGRAM REQUIREMENTS

D I G E S T

The objective of the Pell Grant program at post-secondary proprietary schools is to help financially needy students get training which will prepare them for employment. Proprietary schools are generally private, for profit vocational schools. (See app. II for list of types of schools reviewed.)

GAO estimates that school practices, which are not in the best interests of the students and do not comply with the program requirements, are costing the federal government millions of dollars. GAO believes that improved monitoring is needed to better assure schools comply with program requirements and that students obtain intended benefits.

The practices in question included schools: (1) admitting unqualified students who GAO found had a greater tendency to drop out of school before completing their training than did qualified students, (2) not establishing and/or enforcing academic progress standards, (3) misrepresenting themselves to prospective students, and (4) making errors in computing and disbursing Pell Grant awards and refunds.

During the program year July 1, 1980, to June 30, 1981, 1,725 proprietary schools received and administered $278 million in Pell Grant funds for the federal government. The 1980-81 program year was selected because it, at the time GAO conducted its fieldwork, was the most recent complete year of Pell Grant operations, allowed consideration of current school policies, and increased the likelihood of student records being available for review and students being available for interview. While this review is based on 1980-81 data, GAO has no reason to believe the sampling results are materially different than would have occurred had more recent data been used because, since GAO's review, program requirements for admissions and administration have not materially changed.

GAO judgmentally selected 15 states from which it randomly sampled 35 schools to determine how they administer the Pell Grant program. The 15 states contained 1,165 of the 1,725 proprietary schools nationwide that received Pell Grant funds and represented $185 million, or 66 percent, of the $278 million of Pell Grant funds disbursed in the 1980-81 award year. GAO examined the records of a sample of students representative of the estimated 123,000 Pell Grant recipients at these schools.

GAO's review resulted from requests from the House Subcommittee on Postsecondary Education and Representative Richard A. Gephardt. The requests were prompted by reports that some proprietary schools had abused the Pell Grant program. (See p. 3.)

INADEQUACIES IN PROGRAM ADMINISTRATION

Admission requirements often lax--lesser qualified students tend not to complete training

Schools are required to admit only students with a high school diploma, general education development (GED) certificate, or demonstrated ability to benefit from training. GAO estimates that 732 of the 1,165 schools in its universe admitted about 14,900 students in program year 1980-81 who did not meet Department of Education (ED) established admission requirements. Such students made up about 18 percent of the 84,000 students admitted by the 732 schools that year. Of the students who did not meet such standards, 10,300, or about 74 percent, dropped out or were terminated before completing training. These students received federal student aid totaling $13 million.

Qualified students at the 1,165 schools were more likely to complete their training than unqualified students. However, their dropout or termination rate was still relatively high--51 percent. Students who qualified for admission on the basis of ability-to-benefit criterion dropped out or were terminated at a higher

rate than those admitted on the basis of a high school diploma or GED certificate--61 percent versus 47 percent. ED has not clearly defined how schools should determine a student's ability to benefit, and GAO found that most schools use some sort of admission test for this purpose. GAO also found that some schools were lax in either developing tests, administering them, or both. The net result was that students who had little likelihood of benefiting from the program were admitted. GAO believes better criteria are needed to determine a student's ability to benefit. (See p. 7.)

Students remain in school without making satisfactory academic progress

A basic principle of federally sponsored student aid is that the recipient should make "satisfactory academic progress." Adequate academic progress standards reflect accurate measurement of both the quality of the student's work and the rate of progress toward a definite educational goal. The final decision on whether a student is making progress is normally the responsibility of the school. ED regulations prohibit schools from disbursing funds to students not making satisfactory academic progress. According to ED, satisfactory academic progress is monitored during ED program reviews and corrective action is required when necessary. However, ED has made only a limited number of program reviews and thus their utility as a monitoring device is diminished.

GAO found that about 83 percent of the schools failed to consistently enforce academic progress standards. GAO estimates that 27,100 students (22 percent of the recipients in its universe) were allowed to remain in school while making little progress toward successful completion of their training. These 27,100 students received $68 million in federal assistance ($37 million in Pell Grant funds and the remainder under other programs, such as the Supplemental Educational Opportunity Grant and the National Direct Student Loan programs). It is doubtful whether students who are allowed to continue in or graduate from proprietary schools without making satisfactory academic

progress receive the intended benefits of the Pell Grant program. (See pp. 11 and 31.)

Some schools use questionable recruiting practices

ED regulations prohibit schools from misrepresenting the nature of their educational programs, financial charges, or employability of graduates. This would include false, erroneous, or misleading statements to a student enrolled at the school or to prospective students. In addition, accrediting associations require that student recruitment reflect sound, ethical practices. GAO estimates that of the 1,165 schools in its universe, 766 schools had misrepresented themselves to varying degrees, primarily during the recruitment process; 533 schools overstated job placement rates; 366 misrepresented scholarships; and 399 misrepresented themselves in advertising. (See p. 16.)

Some schools make errors in administering federal funds

Schools participating in the Pell Grant and other ED student aid programs perform the role of a trustee or a fiduciary regarding program funds. They are required to compute and disburse Pell Grant awards to eligible students and make refunds to ED when students fail to complete training. Schools receive Pell Grant advances from ED, which are credited to students' accounts. Schools then periodically transfer funds from students' accounts to the school to cover educational costs.

GAO estimates that 433 schools had computed some Pell Grant awards incorrectly, 566 schools made errors in disbursing awards, and 899 schools had not complied with requirements for making refunds when students failed to complete training. For example, 300 schools failed to conform to refund guidelines dictated by their respective accrediting agency, and 399 schools had not made refunds due. (See pp. 23 and 26.)

INADEQUATE MONITORING AND ENFORCEMENT

ED requires that all participating schools be independently audited by a public accounting

firm at least once every 2 years, be licensed by the state in which they operate, and be approved by an ED-recognized accrediting association.

In its efforts to assess whether schools comply with Pell Grant program requirements, ED conducts on-site program reviews at some schools each year. ED program reviews have not provided the degree of assurance needed that schools are complying with Pell Grant regulations. ED has limited staff resources to conduct on-site reviews. (See p. 31.)

Based on its review of the efforts of state licensing agencies and accrediting associations, GAO believes these groups offer little potential for assisting ED in assuring that schools are complying with program requirements. Staff shortages at licensing agencies preclude frequent visits to many schools. According to accrediting associations, the accrediting process provides assurances only at a given point in time and they are not responsible for continuously monitoring school activities, especially concerning compliance with federal laws and regulations. (See pp. 34 and 35.)

Independent biennial audits required of all schools fall short of meeting ED's needs because either they do not always adequately address compliance issues or the resultant reports do not fully report the audit findings to ED as required by ED's Audit Guide. GAO reviewed the most recent audit report for 28 of the schools in its sample and compared them with its findings on the schools' compliance with ED requirements. Sixteen of these reports contained no violations although GAO found instances of noncompliance in 26 of the 28 schools, in many cases for the same program years covered by the independent audit. These violations should have been reported under ED's Audit Guide. GAO did not evaluate ED's audit requirements. (See p. 37.)

The quality of audits performed by independent public accountants is evaluated through quality assessment reviews performed by regional office staff of the Inspector General (IG) for ED.

The IG has found problems with some of the independent audits. However, the IG has not established an effective system for gathering and using this information as a basis for assessing the extent to which the work of public accountants can be relied upon and determining how the quality of such work can be improved.

RECOMMENDATIONS TO THE SECRETARY OF EDUCATION

GAO recommends that the Secretary explore the feasibility of developing criteria that would provide schools a better indication that students admitted on the basis of ability to benefit have a reasonable likelihood of completing training. In developing criteria, the Secretary might consider, among other things, the characteristics of successful students enrolled on the basis of ability to benefit, where determinable. If suitable criteria cannot be developed, ED should seek a legislative change to limit admission to students with a high school diploma or GED certificate and to permit exceptions only if justified in writing and approved by ED.

GAO also recommends that the Secretary request the IG to (1) gather information on why IG regional offices reject the audit work and reports of independent public accountants and (2) use the analysis of this information as a basis for assessing and, when necessary, increasing the quality and reliability of public accountant audit work. In regard to this latter point, a collaborative effort with the American Institute of Certified Public Accountants would seem to be most useful. The overall result of this effort would be the development of better information for ED to use in monitoring compliance. Such information, together with ED's program reviews and IG audits, should allow ED to better assure that problems such as those noted regarding recruiting practices, adherence to academic progress standards, and administering federal funds are identified and remedial or other enforcement action is taken where appropriate.

AGENCY COMMENTS
AND GAO'S EVALUATION

ED stated that it did not believe establishing admission policies was an appropriate federal role. ED's position is that admission policies should be established by the institutions and/or the states which support, charter, or license them. ED believes that institutions and accrediting agencies should constantly look at criteria that will better enable them to determine the "ability to benefit." ED stated that the Congress intended that individuals should have every opportunity to obtain training to prepare them for employment.

ED noted that once a student is in school, its October 1983 regulations for establishing and enforcing satisfactory academic progress standards would address the issue of whether a student has the continuing ability to benefit. ED said that self-regulation by institutions and their accrediting agencies will prevent program abuse at a cost significantly less than would be incurred by ED and that with the implementation of these regulations, beginning with the 1984-85 award year, it has a better chance of ensuring program integrity.

While the Congress intended that individuals should have every opportunity to obtain training to prepare them for employment, the 1976 amendments to the Higher Education Act of 1965, enacted by the Congress, specifically provide that schools participating in the Pell Grant program admit only students having a high school diploma, GED certificate, or an ability to benefit from the training being sought. Inasmuch as about 28 percent of the students in GAO's study were admitted to schools on the basis of an "ability to benefit," and about 61 percent of them failed to complete their training, GAO believes the criteria used by schools to assess ability to benefit clearly need to be strengthened.

It should be noted that GAO did not propose ED establish admission policies for schools; GAO's proposal was that ED look into developing better criteria, that accrediting agencies and

schools can use to develop more effective admission policies, than now exist. With respect to ED's view that self-regulation by institutions and accrediting agencies will be a more cost-effective way of solving the problem, GAO's review indicates otherwise. The problems discussed in this report arose in part because no one--the schools, the accrediting agencies, or ED--has developed criteria which will better ensure that students without a high school diploma or GED have a reasonable probability of benefiting from the training that the Pell Grant program supports.

GAO finds nothing in ED's comments which causes GAO to believe its proposal inappropriate. ED is responsible for managing the program and providing leadership and guidance to the accrediting agencies and the schools so that the program will be effectively administered. It seems to GAO that attempting to develop better criteria on the ability to benefit than now exist clearly falls within that responsibility.

GAO does not believe that determining whether a student has the "continuing ability to benefit" by enforcing academic progress standards once a student is in school is an effective method for screening students who did not have the ability to benefit when admitted. Through diligent enforcement of the standards, schools might terminate students who are not maintaining satisfactory academic progress; however, such action usually would occur after a student has been in school for awhile and a portion of the federal aid provided to the student has been spent.

Further, aside from the fact that the academic progress regulations will not preclude the admission of students who are likely not to benefit, GAO has some reservations as to their efficacy. GAO found that many schools did not do a satisfactory job of either establishing standards or diligently enforcing them in the past. Moreover, ED's monitoring of satisfactory academic progress is to take place during program reviews at institutions, and GAO found that program reviews were infrequently made or were not made at many institutions.

ED agreed with GAO's recommendation concerning the need for the IG to better assess the quality and reliability of the public accountant audit work. ED said steps consistent with the recommendation had been taken. GAO believes these steps should better assure the quality of independent audit work.

In addition, a representative of the American Institute of Certified Public Accountants told GAO that the Institute would be willing to work with the IG to help implement GAO's recommendation.

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ABBREVIATIONS

ED	Department of Education
GAO	General Accounting Office
GED	general education development
GPA	grade point average
GSL	Guaranteed Student Loan
IG	Inspector General
NDSL	National Direct Student Loan
QAR	quality assessment review
SEOG	Supplemental Educational Opportunity Grant

CHAPTER 1

INTRODUCTION

The Pell Grant program, administered by the Department of Education's (ED's) Office of Student Financial Assistance, is the largest of six student financial aid programs authorized under title IV of the Higher Education Act of 1965 and its amendments. In the 1980-81 academic year, the program offered grants ranging from $200 to $1,750 to help eligible individuals further their postsecondary education. Since the program began in 1973, the number of recipients has grown over twelvefold. During the 1981-82 school year, $2.3 billion in Pell Grants were awarded to 2,738,000 individuals.[1] About 300,000 of these students were attending proprietary schools,[2] which are the focus of this report.

Pell Grants are available to all students meeting certain criteria, and the amount of the grant is determined by the school based on financial need and educational cost.

HOW THE PROGRAM WORKS

Each participating institution is responsible for day-to-day administration of the Pell Grant program on its campus. As part of an agreement entered into with the Secretary of Education, each school is responsible for ensuring that the program is administered according to rules and regulations and any provisions of the agreement signed with the Secretary. The specific regulations these institutions are committed to enforcing include determining student eligibility, calculating and disbursing grant funds, enforcing academic progress standards, and calculating and making refunds.

To monitor compliance with requirements for day-to-day administration by participating schools, four groups are involved in evaluating program operations. These groups--accrediting commissions, state licensing agencies, ED, and independent public accounting firms--play varying roles in determining that institutions comply with program regulations, as outlined below.

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[1]ED's fiscal year 1985 budget justification proposed a funding level for the Pell Grant program of $2.8 billion, the same level as for 1984. ED estimated that this funding level would provide grants to about 2.3 million individuals.

[2]Proprietary schools differ from public or nonprofit educational institutions of higher learning in that they essentially teach vocational-type subjects and are operated for profit.

ED's Office of Program Review conducts periodic onsite reviews of the stewardship of federal funds by examining administrative capabilities, program compliance, and accounting practices. ED requires that each school receiving title IV funds be audited by an independent public accountant at least once every 2 years. These audits are used to determine fiscal integrity as well as compliance with applicable program regulations. Accreditation, which is an independent appraisal of an institution's overall educational or training quality, its professional status, and its integrity, performed by nationally recognized accrediting agencies, is a prerequisite to a school receiving title IV funds. Accreditation is a means ED uses to help assure a basic level of quality instruction and consumer protection. To receive title IV funds, a school must also have a state license, which--like accreditation--implies conformance with minimum standards governing the quality of education.

To be eligible for a grant, an individual must meet certain residency requirements, be enrolled at least half-time in an eligible program in a Pell-participating school, and have sufficient financial need. Financial need is determined from a formula developed annually by ED and reviewed by the Congress. Applied consistently to all applicants, this formula considers such indicators of financial strength as income, assets, and family size to produce a student eligibility index. The greater the financial need, the smaller the index.

The index, together with the cost of education and the student's enrollment status (full time or part time), determines the amount of the Pell Grant. The size of the grant increases as the eligibility index decreases so that an applicant with an eligibility index of zero may receive the maximum award. For program year 1980-81, the maximum award was limited to half the educational cost, not to exceed $1,750. In program year 1982-83, however, the award was not to exceed $1,800.

ED advances grant funds to eligible schools based on the school's estimate of the number of eligible students and their need for funds. Schools then credit the amount of the Pell grant to an account maintained for each student. Funds are transferred from the students' accounts periodically to the school to cover tuition fees and other educational costs.

Pell Grant recipients may also receive financial aid from such other title IV programs as the Guaranteed Student Loan (GSL), the National Direct Student Loan (NDSL), College Work Study, and Supplemental Educational Opportunity Grant (SEOG) programs.

Program activity

The Pell Grant program has grown from less than 200,000 recipients receiving about $48 million in program year 1973-74 to about 2.8 million recipients receiving about $2.5 billion in the peak program year 1980-81. (Program funding and the number of recipients have dropped somewhat in the last few years.) During the 1973 to 1981 time frame, the average grant amount grew from about $270 to about $880. In 1973 only full-time freshmen were eligible to receive a Pell Grant, but in 1976 eligibility was expanded to include all undergraduates enrolled on at least a half-time basis.

OBJECTIVES, SCOPE, AND METHODOLOGY

This review was made in accordance with generally accepted government auditing standards. It resulted from a request from the Chairman of the House Subcommittee on Postsecondary Education and Representative Richard A. Gephardt. The request was prompted by congressional concern about reports of proprietary schools abusing the Pell Grant program. To assist the Congress, the House Subcommittee on Postsecondary Education requested an in-depth assessment of Pell Grant implementation at proprietary schools.

Responding to this request, we conducted a broad assessment of the Pell Grant program as administered by proprietary schools. Our review objectives were to determine if

--the controls exist for insuring compliance with program regulations,

--the existing controls are adequate in preventing program abuses and assuring efficient and effective implementation of program activities, and

--alternative means of program control are feasible.

We did not evaluate the quality of the instruction provided by the schools or the vocational outcomes of those students who were enrolled.

To meet our objectives, we analyzed information gathered from a number of sources. We interviewed officials from ED, state licensing agencies, and accrediting groups who provided information on their relationships with proprietary schools. Also, we randomly selected for review a sample of 35 schools (see app. I) from a universe of 1,165 proprietary schools in

15 states.[3] This universe represented $185 million, or about two-thirds, of the $278 million of Pell Grant funds disbursed in the 1980-81 award year to 1,725 proprietary schools nationwide.

While our selection does not allow us to project our findings to the 1,725 schools nationwide, the results are projectable to the 1,165 schools from which we drew our sample. At the 35 sample schools, records for students who received Pell funds for the first time in 1980-81 were randomly selected and reviewed to measure compliance with Pell Grant regulations. In addition to reviewing student records at each school, we interviewed officials who administered the program on a day-to-day basis as well as some students and employers of school graduates.

To assure that the schools and students included in our analysis were representative of schools and students in the 15-state universe, we used a multistage random sampling methodology. We judgmentally selected the 15 states because proprietary schools in these states received a large percentage of Pell Grant funds awarded to proprietary schools nationwide, and they provide broad geographical coverage. To assure that the schools included in the review would allow us to project our findings, we grouped the states into five regions to coincide with appropriate ED regional office boundaries and randomly selected schools from each regional universe. The number of schools selected in each region was based on a proportional allocation of schools necessary to project our findings with a 95-percent level of confidence.

To insure that we obtained consistent and unbiased information for the sample of Pell recipients, we randomly selected first-time enrollees at each school for the 1980-81 Pell Grant award year. This selection allowed us to consider current school policies and increased the likelihood of student records and students being available for review and interviews, respectively. Also, 1980-81 was the most recent complete year of Pell Grant operations before the start of our review. We have no reason to believe the sampling results for this time period would be materially different from current program conditions because, since our review, program requirements for admissions and administration have not materially changed.

So that our findings at each school would be representative of the school's population of Pell Grant recipients, we followed a sampling approach that controlled for variations in the size

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[3]Although our universe of schools was in 15 states, when we drew our sample of 35 schools, only 12 states were represented.

of schools. From the 35 sample schools, 761 students were randomly selected, which we estimate represented 123,000 students who received Pell Grants in program year 1980-81 at the 1,165 proprietary schools.

We obtained information on each student from student academic and financial records, school documents, and interviews with students and school officials. The type of data collected from student records included educational background, admission eligibility, academic progress, tuition payments, and employment status of graduates. We conducted our fieldwork at schools during June through December 1982.

In addition to data about students and school policies, we reviewed the manner in which accrediting agencies, independent public accounting firms, state licensing agencies, and ED's Office of Program Review carried out their respective responsibilities concerning the school. We also obtained information from ED's Office of the Inspector General (IG) on its review of audits performed by independent public accounting firms.

The estimates discussed in this report were derived on the basis of the foregoing methodology. Further information on our methodology and descriptive tables of the sampling information are presented in appendix I.

CHAPTER 2

COSTLY WEAKNESSES IN PELL GRANT ADMINISTRATION BY PROPRIETARY SCHOOLS

The Pell Grant program awards funds to financially needy students attending proprietary schools for training which will prepare them for gainful employment in a recognized occupation. Because schools are responsible for day-to-day administration of the program, the Higher Education Act of 1965, as amended, and ED regulations impose a number of requirements that schools must follow to help assure the program's goals are achieved while protecting the financial interests of students and the federal government.

Proprietary schools are required to admit only students with high school diplomas, general education development (GED) certificates, or demonstrated ability to benefit from training. Schools must also establish and enforce academic progress standards. According to ED guidelines, a measure of an institution's administrative capability and financial responsibility is the school's dropout rate; a schoolwide dropout rate of more than 33 percent raises serious questions about the school's capabilities and is an indication of inadequate instruction, improper management practices, or other actions by the institution which impair its management of title IV programs.

Many of the 1,165 schools in our universe did not adhere to admission or academic progress requirements, and the rate at which students dropped out or were terminated (hereafter referred to as dropouts) before completing their training was high. We estimate that

--732 schools admitted about 14,900 students who did not not meet admission requirements. These students dropped out at a significantly higher rate and tended to have a higher incidence of academic failure than students admitted according to ED's standards;

--965 schools did not either establish or always enforce academic progress standards; and

--466 schools had schoolwide (includes both Pell and non-Pell recipients) dropout rates that exceeded ED's 33-percent benchmark, ranging from 34 to 63 percent and averaging 49 percent.

Among qualified students, those admitted under an ability-to-benefit criterion dropped out at a significantly higher rate than students admitted on the basis of a high school diploma or GED certificate--61 percent compared to 47 percent--indicating that the ability-to-benefit criterion needs to be strengthened.

In addition, ED regulations require that schools not misrepresent themselves or any aspect of the training or job placement to students or prospective students. We estimate that 766 schools did not fully comply with this requirement.

ADMISSION REQUIREMENTS OFTEN NOT ENFORCED

ED regulations specify that an eligible program admit only students with a high school diploma, GED certificate, or demonstrated ability to benefit from training. If students are admitted on the latter basis, schools must document a student's ability to benefit from training with a standardized test or other verifiable bases. Most schools impose a written admission test to satisfy this requirement. In addition, accrediting associations require that schools admit only applicants who meet stated requirements and have the aptitude, interest, and motivation to learn and practice the profession for which training is sought.

Of the estimated 123,000[1] students in our universe, 14,900 students were admitted by 732 schools in program year 1980-81 without a verified high school diploma, GED certificate, or demonstrated ability to benefit. (Such students made up about 18 percent of the 84,000 students admitted by the 732 schools that year.) These unqualified students included about 11,400 students who were admitted to schools that did not require students without a high school diploma or GED certificate to take an admission exam or otherwise verifiably demonstrate an ability to benefit. Of the remaining unqualified students, about 1,900 entered schools that normally give admission tests but did not take them, and 1,600 students took and failed the admission exam but were still admitted. For the 14,000 of the 14,900 unqualified students for which their educational outcome could be determined, 10,300 students, or 74 percent, dropped out before completing training.

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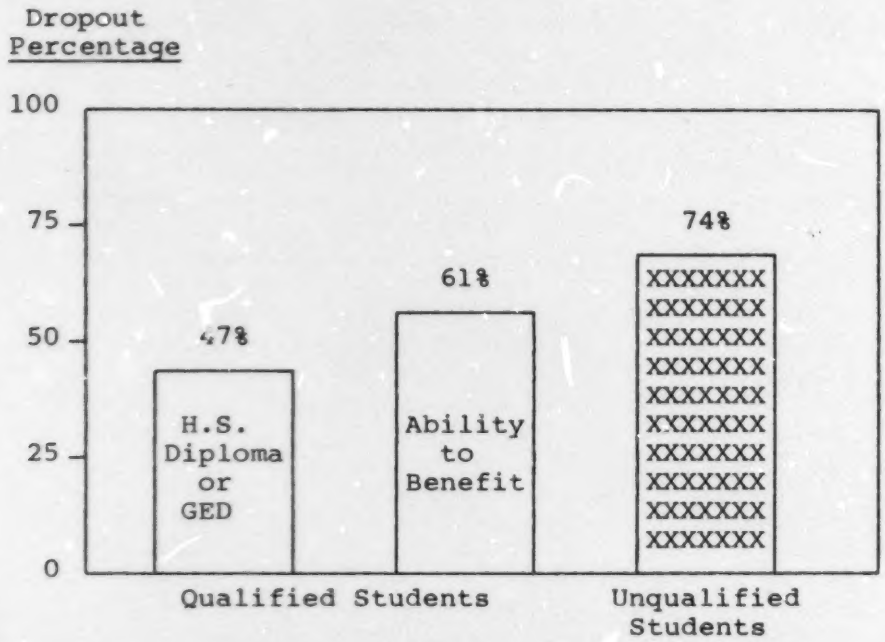
[1]Of the 123,000 students, we were able to project the outcome for only 110,000 students. The remainder were still in school.

When admission standards were enforced, the dropout rate, while lower, was still high as shown in the following chart.

Dropout Rate For Qualified and Unqualified Students



A total of 49,300, or 51 percent, of the qualified students in our universe dropped out before graduation. About 24,000 students attended only one term or less. Many attended only a few days before dropping out. For example:

--At one school, 26 of the 40 students in our sample dropped out, 12 graduated, and 2 were still in school. (The dropouts included 18 of 23 students admitted without a high school diploma or GED.) Sixteen students withdrew in one term, costing the federal government $15,748. One student was enrolled for 24 days, was absent 6 of those days, and received a failing grade on the only exam attempted; the school received $477 in tuition payments. Another student attended 1 day, costing the government $738. A third student attended 11 days and did not complete any exams; the school received $357 in tuition payments.

The overall high attrition rates that occurred, even when schools enforced admission requirements, indicate that ED and school admission standards may need to be more stringent. As

shown in the chart above, the dropout rate for students admitted with a high school diploma or GED certificate was 47 percent. In contrast, the dropout rate was 61 percent for students admitted on the basis of ability to benefit. About 28 percent of the qualified students were admitted on the latter basis.

Generally, schools used an admission test to determine a student's ability to benefit. About 10 percent of the schools allowed students to retake entrance exams until they received passing scores. Some students took the exam two or three times on the same day. Students who passed the test the first time had more positive outcomes than those who had to retake the test. In other instances, students reported that the admission exam was administered to them after they began attending school. Some schools offered tutorial assistance to students wishing to prepare for the exam.

At one school, students had to answer only 8 of 35 questions correctly to pass the admission examination. Seven of the 20 students in our sample who were admitted under the ability-to-benefit criterion retook the same exam--one student took it three times. This student was absent from class 28 days and dropped out in the first term. Eventually six of the seven students who retook the exam dropped out; the 13 students who passed the exam the first time had a lower dropout rate.

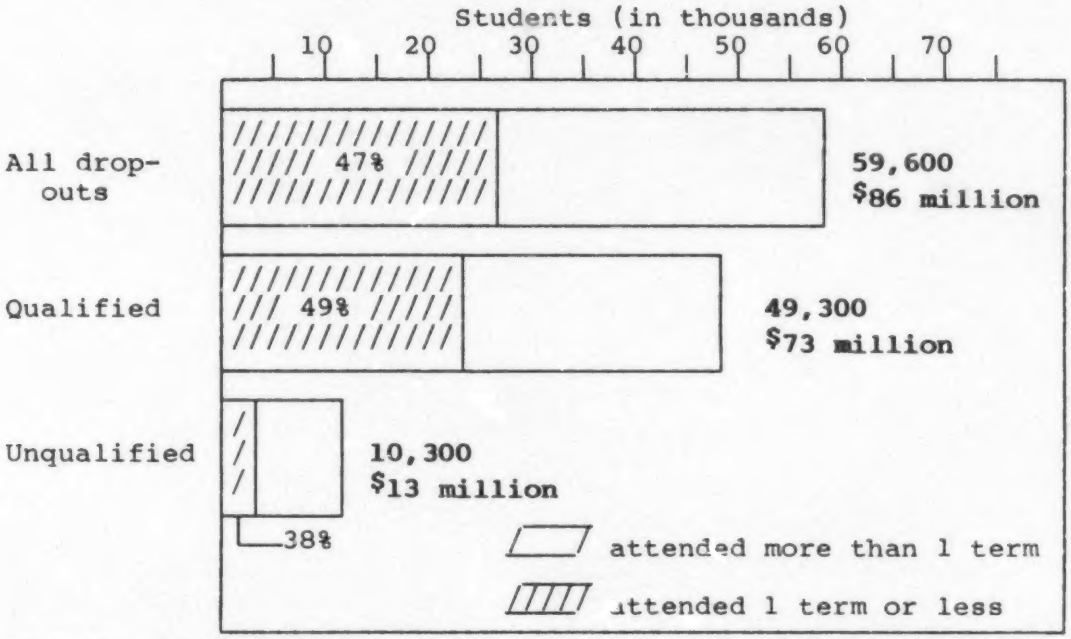
At another school, 23 of 40 students in our sample were admitted without a high school diploma or GED certificate. These students may not benefit from their training in terms of gainful employment because graduates at this school cannot obtain a license to practice their trade in the state in which they received training without a high school diploma or GED certificate. Of the 12 sample students who graduated, 9 had no high school diploma or GED certificate.

Before being amended in 1976, the Higher Education Act of 1965 required that schools admit only students with a high school diploma or GED certificate. The 1976 amendments to the act allow schools to also admit students who have an ability to benefit from the training. In view of the high percentage (28 percent) of students admitted on the basis of this relaxation of admission standards and their higher attrition rate (61 percent), we believe that schools need to do a better job of assessing students' ability to benefit when they do not have a high school diploma or GED certificate.

Federal aid provided to students who dropped out before completing their training was substantial. The 59,600 qualified and unqualified students who dropped out received financial aid totaling $86 million. Of these, 27,900 students attended only

one term or less and received federal financial aid totaling $25 million. The federal aid to the 10,300 unqualified students who dropped out was $13 million, as shown below.

Number of Students Who Failed to Complete Training and Associated Federal Student Aid



Other ineligible students and programs

In addition to requiring that students have a high school diploma, a GED certificate, or an ability to benefit, ED regulations stipulate that students must not have already obtained a baccalaureate degree. We estimate that at 133 schools some students were admitted even though they had already obtained a baccalaureate degree. For example, one school did not follow up on four of our sample students' disclosures that they had college degrees. We found that two of these students had degrees and two did not. The Pell Grant disbursements to the students with degrees were $1,531.

Further, some schools admitted students to training programs which did not meet ED's eligibility criteria. ED regulations require that to be eligible to participate in the Pell Grant program, a training program must be accredited; cover at least 600 clock hours, or 6 months; and considered postsecondary (not remedial). In addition, the regulations specify that an institution, when determining a student's

enrollment status, may not include any course that leads to a high school diploma or GED certificate, even if the course is necessary to enable the student to complete the degree or certificate program. We estimate that 133 schools did not always adhere to these requirements for training program eligibility. Some examples follow:

--One school admitted Pell Grant recipients into four certificate courses which ranged from 6 to 12 weeks, far short of the 6-month requirement. Two sample students were admitted into a 12-week receptionist program. For these students, the school received $879 in Pell Grants and $1,725 in GSL funds.

--Another school awarded 18 of our sample students Pell Grant funds for entering a 700-hour GED training and office assistant program. These students received $15,821 in Pell and $19,247 in other federal funds for tuition.

--A cosmetology school improperly processed an award for and disbursed $1,262 in Pell Grant funds to one student attending a 500-clock-hour unaccredited, teacher training program. The school then waived the remaining tuition for this student who is now employed by the school as an instructor.

ACADEMIC PROGRESS STANDARDS WERE SOMETIMES LACKING OR INADEQUATE AND WERE NOT ALWAYS ENFORCED

A basic principle of federally sponsored student aid--as specified in both the law and ED's regulations--is that students make satisfactory academic progress according to the standards at the school where the student is in attendance. The accrediting groups require that schools establish and enforce academic measures of both grades and attendance. The final decision on whether a student is making progress is normally the responsibility of the school. Pell Grant regulations state that no funds shall be disbursed to students not making satisfactory academic progress. According to ED, satisfactory academic progress is monitored during ED program reviews and corrective action is required when necessary. (See p. 31 for a discussion on the limited number of program reviews made by ED.)

We have previously reported[2] on problems with school enforcement of academic progress standards and found that similar problems continued to exist during this review. Of the 1,165 schools, we estimate that

--133 schools, or 11 percent, had either no written attendance standards or no grading standards in place during the 1980-81 program year, and all have since published inadequate standards;

--166 schools, or 14 percent, had inadequate grading and/or attendance standards; and

--965 schools, or 83 percent, did not consistently enforce their academic progress standards (includes schools with inadequate standards).

Because schools either did not have adequate standards, or were not enforcing their standards, we estimate that 27,100 students (22 percent) in our universe were allowed to remain in school while making little progress toward successfully completing their training.[3] This included 22,700 students who, according to school policy, had excessive absences and 4,400 students with grades below the schools' academic progress standards.

Students who were not complying with academic progress standards at these schools received $68 million in federal assistance ($37 million in Pell Grant funds and the remainder under other programs, such as the Supplemental Educational Opportunity Grant and the National Direct Student Loan programs).

Lack of or inadequate
academic progress standards

Written academic progress standards measuring attendance or grades were nonexistent at 133 schools during program year 1980-81. However, these schools had published standards for subsequent program years, but we did not consider them an adequate measure of academic progress for a number of reasons that are discussed below. Also, although the remaining schools in

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[2]Students Receiving Federal Aid Are Not Making Satisfactory Academic Progress: Tougher Standards Are Needed (HRD-82-15, Dec. 3, 1981).

[3]Noncompliance with academic progress standards may be understated because attendance and academic records for many students were missing, incomplete, or inaccurate.

our universe had academic progress standards covering the period we reviewed, the standards were inadequate at an additional 166 schools. Therefore, we estimate that at the time of our review, 299 schools had standards that did not adequately assess academic progress.

Adequate academic progress standards reflect accurate measurement of both the quality of the student's work and the rate of progress toward a definite educational goal. Because ED establishes no minimum requirements, schools are free to set and choose their academic progress standards. Although most schools required students to maintain a 2.0 grade point average (GPA),[4] some schools' standards were lower. Some schools' standards allowed students to maintain a GPA lower than that required for graduation. In other instances, schools allowed excessive absenteeism.

At 200 schools, which includes schools that had recently published standards, students with a D or D+ average were considered to be maintaining satisfactory academic progress. In most instances, this average was lower than what the school required for graduation. In setting academic progress standards, schools sometimes allow students to maintain a GPA less than 2.0, particularly during the first few terms of enrollment. In our opinion, a question exists about whether a student is making satisfactory academic progress if the standard is lower than that required for graduation. Minimally, the student should demonstrate an ability to eventually raise his or her average to the graduation requirement. In this regard, the Veterans Administration requires that any institution qualifying for Veterans Administration benefits must set GPA or other minimum proficiency requirements at a level consistent with graduation or program completion requirements.

To illustrate, one school which required a 2.0 GPA for graduation considered students to be maintaining satisfactory academic progress if they attained an average of 1.5 before graduation. The low GPA standards resulted in numerous instances of students who had continued in school and received financial aid with GPAs short of the 2.0 required for graduation.

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[4]Most schools in our sample used the GPA as a key indicator of academic progress. While schools sometimes use other GPA scales or percentages, we have converted all grades discussed to a 4.0 scale, where "A"=4.0, "B"=3.0, "C"=2.0, and "D"=1.0.

One secretarial school had the following academic progress requirements.

One-year program	Two-year program
--1.40 GPA by the end of the third marking period	--1.40 GPA by the end of the first semester
--1.50 GPA needed for graduation	--1.70 GPA by the end of the first year
	--1.70 cumulative GPA needed for graduation

Although students at this school were allowed to remain in school with a 1.5 or 1.7 GPA, they needed a 2.0 in selected skills courses to graduate. Most students were able to attain the required GPA to remain in school. However, 5 of our 22 sample students completed the necessary courses, but did not graduate because they failed the selected skills courses, such as shorthand and typing.

A few schools considered students to be maintaining satisfactory academic progress if they received a passing score on one-half of their total exams.

At 133 schools, written attendance policies were liberal. For instance, students were allowed to be absent from 25 to 50 percent of classtime and still be considered in "good standing."

--One school allowed students to miss 50 percent of the scheduled course hours, or 80 hours per month. If students exceeded this amount, they were put on probation for 30 days. It was not unusual to find students still enrolled at the school with a continued history of excessive absences. One student was absent as much as 274 hours for a term, an average of 91 hours per month for 3 months. Federal funds of $1,015 were paid to the school for this student, who was eventually terminated by the school.

--Another school had no limit on absenteeism. One student at this cosmetology school was absent an average of 81 hours (about 50 percent of the time) per month over a 6-month period and was allowed to continue. These absences ran as high as 262 hours for a 3-month term. This student received $1,538 in federal funds. Another student was absent an average of 74 hours per month for 3 months, or 223 hours for the term. The

program was scheduled at this school for 160 class hours per month. This student received $1,288 in federal funds for tuition. Both of these students eventually graduated.

Academic progress standards often were not enforced

Even when standards were in place, regardless of quality, they frequently were not enforced. We found excessively high absenteeism, low GPAs, and failure by schools to terminate students. Eighty-three percent of the schools did not adequately enforce GPA and/or attendance requirements. This lack of enforcement allowed 27,100 students to remain in school and continue to receive federal funds when they were not making satisfactory academic progress. Half of there students eventually graduated even though they did not meet the schools' attendance or academic standards for graduation.

Of the 1,165 schools in our universe, we estimate that 399 schools allowed 4,400 students to remain in school while not complying with the schools' GPA requirement. Concerning attendance standards, 866 schools allowed 22,700 students with excessive absenteeism to remain in school. Many instances of noncompliance with academic and attendance standards were similar to the following:

--At one school, we found that 17 of the 34 sampled students did not maintain minimum GPAs. Nine of the 17 students dropped out after the first quarter with a 0 GPA. Four of the remaining students attended the school for two terms but had a 0 GPA, three students received grades below the school's requirements for two or more terms, and one student attended 1 year but never received a letter grade. For these 17 students the school received $19,857 in federal funds for tuition.

--At another school, one student did not maintain minimum grades for seven consecutive terms. During this time, the school received $16,225 for tuition from Vocational Rehabilitation.[5] The student also received $3,420 in Pell Grant funds for subsistence expenses. Not until his eighth and final term was the student terminated for "lack of academic progress."

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[5]ED's Vocational Rehabilitation program provides financial aid to eligible handicapped individuals attending higher education institutions when such aid is not available from other sources.

--Although one school catalog states that absences in excess of 20 percent (200 hours) of total course hours will result in immediate student dismissal, one student was absent more than 200 hours in the first 4 months yet was not terminated. This student received $2,747 in federal funds. Six other students in our sample also had excess absences but were allowed to stay in school and continue receiving Pell Grant funds. Although all six eventually graduated, only four made up the clock hours they had missed.

--Another school allowed students who were enrolled in an 800-hour course to graduate with as little as 585 hours completed. However, according to the school's absenteeism policy, only 10 percent of the course hours could be missed, or 80 hours total.

QUESTIONABLE RECRUITING PRACTICES

ED regulations prohibit schools from misrepresenting the nature of their educational programs, financial charges, or employability of graduates. This would include false, erroneous, or misleading statements to an enrolled student at the school or to prospective students. In addition, accrediting associations require that student recruitment reflect sound, ethical practices and that students not be guaranteed jobs upon graduation. For example, promotional advertising should avoid leaving any false, misleading, or exaggerated impressions regarding the school, training, personnel, or occupational opportunities. Offers of scholarships or partial scholarships are not to be used as a recruiting device and must be bona fide reductions in tuition before considering federal financial aid to the student.

We estimate that 766 schools, or 66 percent, had misrepresented themselves to varying degrees, primarily during the recruitment process. Some schools

--overstated job placement rates,

--offered students "free scholarships" which did not reduce tuition, or

--misrepresented themselves through advertising.

Overstated job placement rates

We estimate that 533 schools, or 46 percent, quoted prospective students job placement rates that were higher than records indicated, and/or inflated the placement rates reported

to their accrediting and state licensing agencies. In both instances, placement statistics were inflated by including jobs students obtained outside the field of training or those only remotely related to training, jobs obtained before training, or part-time employment consisting of a few hours per week. Examples of inflated statistics follow:

--At one school, which reported a placement rate to its accrediting agency of 56 percent in one training program, recruiters were informing prospective students that the placement rate in the field of training averaged 80 percent.

--One school reported placement rates to its accrediting agency of 75, 80, and 60 percent for three programs and a 100-percent placement rate for four other programs. However, school records showed a placement rate of less than 50 percent for all programs. In our student sample of 34, 2 were still in school, 2 graduated, and 30 dropped out. We were unable to determine if either graduate obtained a job.

--A third school quoted prospective students a job placement rate of 90 percent, 15 percent of which represented students who transferred to 4-year colleges, rather than students who were placed in a job. In our sample of 42 students, 20 students, or 48 percent, dropped out. Of the remaining 22 students, 16 graduated and 9 of those got a job--5 in the field of training. One student told us that he was employed in the same job he had while in school. The school, however, reported this as a placement after graduation.

In addition, we attempted to verify the placement statistics with employers the schools said had hired their graduates. Of the firms we were able to contact, some informed us that they did not know of some of the students in question. Based on our sample, we estimate that for 100 of the 533 schools we were not able to verify with employers the placement of graduates claimed by the schools. Some school officials, when quoting high job placement rates, sometimes neglected to inform applicants of the accompanying high student dropout rate. Further, based on our interviews with students, we estimate that, contrary to accrediting agency standards, 2,750 students were led to believe that they were guaranteed jobs by either school officials or through advertising. For example, students at one school told us that the school's television and radio advertisements in Spanish-speaking areas led them to believe that graduates were guaranteed jobs. Other students told us they were promised jobs by the school recruiter or other officials.

Free scholarships

ED regulations and accrediting standards state that misrepresentation occurs when schools offer to pay all or part of tuition unless the scholarship is actually used to reduce tuition charges. We estimate that free scholarships were offered by 366 schools, or 31 percent. The scholarships usually ranged from $300 to $500, but these amounts were not actually deducted from the tuition cost. Instead, federal student aid usually covered the full tuition. For example:

--One school offered a "Name a Hairstyle" contest. One student could win a full scholarship while nine others could win partial scholarships from $300 to $500. As a winner of this contest, one student received a "free" scholarship of $2,025 for tuition. The student paid $375 for supplies and the enrollment fee. Upon receipt of the Pell Grant, school officials credited the entire $1,750 to the student's tuition account thereby recovering most of the tuition cost. If this had been a legitimate scholarship, the school would have returned the full Pell Grant to the student for subsistence expenses.

Of the estimated 123,000 students in our universe, 11,400 students received scholarships that did not reduce tuition costs. Of these, 7,100, or 62 percent, dropped out before completing training. The schools these students attended received $3 million in federal funds, which would have been in excess of tuition costs if the scholarships had actually reduced the students' tuition costs. Rather than reducing tuition costs by the amount of the scholarship, however, the schools used the federal funds received for students to cover the cost of tuition.

Misleading advertising

Despite ED's regulations and accreditation standards prohibiting misleading advertising, 399 schools, or 34 percent, engaged in such practices to varying degrees. Sixty-seven schools advertised forms of financial aid which were not available. For example, one school advertised that NDSL and SEOG funds were available, while another advertised that the school qualified for Veterans Administration benefits, but neither school offered or accepted these types of financial aid from students because they did not want the associated paperwork or audit burden. We estimate that 100 schools claimed that credits earned could be transferred to many 4-year colleges when, in fact, this was not true or true to a very limited extent, such as to one or two colleges. Further, training and/or placement opportunities were misrepresented at 233 schools. Below are other examples of misleading promotional material.

--One school implied that good job opportunities existed in the local area by stating in its catalog that "[the area] ranked high among states as an apparel producer." However, the school placement director told us that design graduates may have to relocate, settle for less than a "prime" job, or become self-employed if they wish to get a training-related job because few employment opportunities existed in the local area.

--Another school stated in its catalog that the school's incidence of failure was low and cited a 2.8-percent dropout rate in its orientation speech to new students. However, students were not told this was a monthly dropout rate and that the annual dropout rate was much higher. We noted school reports for program year 1980-81 showed annual dropout rates varied from 11 to 45 percent, depending on the course. According to our calculations, the dropout rates ranged from 18 to 67 percent. Within our student sample of 35, 14 students, or 40 percent, dropped out.

CONCLUSIONS

Many proprietary schools have not properly administered the Pell Grant program. The high incidence of proprietary schools not adhering to recruiting, admission, and academic progress requirements has contributed to the failure of a large number of students to complete their training program. Questionable recruiting practices and nonadherence to admission standards contribute to the high attrition rates. Many students drop out of school before completing the training that is supposed to prepare them for employment. Further, inadequate or nonenforcement of academic progress standards results in students remaining in school collecting federal funds after they should have been terminated. Compounding the problem is that students and the federal government pay schools millions of dollars for tuition and related costs for often questionable outcomes. It is doubtful whether students who are allowed to continue in or graduate from proprietary schools without making satisfactory academic progress receive the intended benefits of the Pell Grant program.

While we believe better monitoring and enforcement of school compliance with program requirements is necessary (as will be discussed in ch. 4), we also believe that more stringent admission requirements (especially the ability-to-benefit criterion under which many students were admitted) need to be developed. Students admitted under an ability-to-benefit criterion generally had less successful completion rates than students

who had a high school diploma or GED certificate. While we recognize the desirability of giving financially needy students every opportunity to obtain training to prepare them for employment, we believe it is not in the best interests of either the students or the federal government to allow schools to admit students who have little likelihood of completing the training. Many such students become discouraged and drop out, or are terminated by the school--at significant cost to themselves and the federal government for tuition and related expenses.

RECOMMENDATION TO THE SECRETARY OF EDUCATION

In view of the significantly higher dropout rate for students admitted on the basis of the ability-to-benefit criterion, we recommend that the Secretary explore the feasibility of developing criteria that would provide schools a better indication that such students have a reasonable likelihood to complete training. In developing criteria, the Secretary might consider, among other things, the characteristics of successful students enrolled on the basis of ability to benefit, where determinable.

If suitable criteria cannot be developed, we recommend that the Secretary seek a legislative change to limit admission to students with a high school diploma or GED certificate and to provide that exceptions to this requirement be justified in writing and approved by ED.

AGENCY COMMENTS AND OUR EVALUATION

ED, in commenting on a draft of the report (see app. III), stated that it did not believe establishing admission policies was an appropriate federal role. ED's position is that admission policies should be established by the institutions and/or the states which support, charter, or license them. ED believes that institutions and accrediting agencies should constantly look at criteria that will better enable them to determine the "ability to benefit." ED stated that the Congress intended that individuals should have every opportunity to obtain training to prepare them for employment.

ED noted that once a student is in school, its October 1983 regulations for establishing and enforcing satisfactory academic progress standards would address the issue of whether a student has the continuing ability to benefit. ED said that self-regulation by institutions and their accrediting agencies will prevent program abuse at a cost significantly less than would be incurred by ED and that with the implementation of these regulations, beginning with the 1984-85 award year, it has a better chance of ensuring program integrity.

While the Congress intended that individuals should have every opportunity to obtain training to prepare them for employment, the 1976 amendments to the Higher Education Act of 1965, enacted by the Congress, specifically provide that schools participating in the Pell Grant program admit only students having a high school diploma, GED certificate, or an ability to benefit from the training being sought. Inasmuch as about 28 percent of the students in our study were admitted to schools on the basis of an "ability to benefit," and about 61 percent of them failed to complete their training, we believe the criteria used by schools to assess ability to benefit clearly need to be strengthened.

It should be noted that we did not propose that ED establish admission policies for schools; our proposal was that ED look into developing better criteria, that accrediting agencies and schools can use to develop more effective admission policies, than now exist. With respect to ED's view that self-regulation by institutions and accrediting agencies will be a more cost-effective way of solving the problem, our review indicates otherwise. The program abuses discussed in this report arose in part because no one--the schools, the accrediting agencies, or ED--has developed criteria which will better ensure that students without a high school diploma or GED have a reasonable probability of benefiting from the training offered through the Pell Grant program.

We found nothing in ED's comments which causes us to believe our proposal inappropriate. ED is responsible for managing the program and providing leadership and guidance to the accrediting agencies and the schools so that the program will be effectively administered. It seems to us that attempting to develop better criteria on the ability to benefit than now exist clearly falls within that responsibility.

ED's October 1983 regulations may help to get schools to establish and enforce meaningful academic progress standards. However, we do not believe that determining whether a student has the "continuing ability to benefit" by enforcing academic progress standards once a student is in school is an effective method for screening students who did not have the ability to benefit when admitted. Through diligent enforcement of the standards, schools might terminate students who are not maintaining satisfactory academic progress; however, such action usually would occur after a student has been in school for awhile and a portion of the federal aid provided to the student has been spent.

Further, aside from the fact that the academic progress regulations will not preclude the admission of students who are likely not to benefit, we have some reservations as to their

efficacy. We found that many schools did not do a satisfactory job of either establishing academic progress standards or diligently enforcing them in the past. Moreover, ED's monitoring of satisfactory academic progress is to take place during program reviews at institutions, and we found (as discussed in ch. 4) that program reviews were infrequently made or were not made at many institutions.

CHAPTER 3

ADMINISTRATIVE ERRORS INCREASE THE COST OF THE PELL GRANT PROGRAM

As part of their responsibility for day-to-day administration of the program, schools are required to compute and disburse Pell Grant awards to eligible students and make accurate, timely, and equitable refunds to both students and the federal government when students fail to complete their training. Under the regulations, schools participating in title IV programs perform the role of a trustee or a fiduciary regarding title IV funds. Before a school can participate in title IV programs, it must demonstrate that it is financially responsible and administratively capable of not only providing the education it promises to its students, but also properly managing the title IV assistance programs.

Pell Grant regulations and ED's guidelines specify the procedures schools should follow in computing the amount of funds students are entitled to receive and for disbursing the proper amount at the proper time to pay for the cost of attendance. We were unable to verify the accuracy of these transactions at some schools because financial records were incomplete, inaccurate, or missing. At the schools where we were able to verify award computations and disbursements for our sample students, we found numerous errors.

Schools frequently computed and disbursed Pell Grant awards improperly. Although the errors most often resulted in overawards to students, in some cases students were awarded less than the amount they were entitled to receive. Even in these cases, however, schools generally received the full tuition cost because, if the Pell Grant award was insufficient to cover the full tuition amount, it was paid through another source of student financial aid, such as SEOG, NDSL, or GSL, or by the student. Further, as a result of disbursement errors, some schools obtained federal funds earlier than they should have, allowing them to earn interest on them or to finance day-to-day operations with the funds that they were not yet entitled to receive.

Also, refunds were often calculated incorrectly, made untimely, and in some cases, not made at all.

AWARDS WERE FREQUENTLY COMPUTED AND DISBURSED IMPROPERLY

Based on our sample of 35 schools, we estimate that 433 schools, or 37 percent of the schools in our universe, had computed some Pell Grant awards incorrectly. These errors occurred as a result of using incorrect student enrollment status or miscalculating the cost of attendance and/or the amount or timing of expected grant disbursements. In many cases, these practices appeared to result from a lack of understanding or differing interpretations of the requirements of ED regulations or clerical errors resulting from a lack of attention to requirements.

Schools must follow several steps in calculating the amount of Pell Grant funds students are entitled to receive. First, the school determines whether the student's enrollment status is full time or part time. Second, the school calculates the cost of attendance which includes tuition, a fixed allowance of $1,100 for room and board, and a fixed allowance of $400 for books and supplies. Third, the school considers the student's eligibility index which is based on financial need and limits the grant amount to 50 percent of the cost of attendance. As indicated earlier, the maximum grant amount established by ED for program year 1980-81 was $1,750.

Some schools erred in determining students' enrollment status, and overawards occurred because more hours or classes were included in the calculation than the number for which the student was enrolled. Other schools miscalculated the cost of attendance by incorrectly adding the cost of books and supplies into tuition. Since an allowance for books and supplies is already included in the formula, duplication occurred. At one school, this practice represented an overaward of up to $300 for each of our 16 sample students.

Other schools, contrary to regulations, did not consistently use the same tuition charge in the cost of attendance formula. As a result, some students were overawarded, and others were underawarded. For example:

--At one school, 14 of 20 Pell Grant awards were calculated incorrectly due to variable amounts of tuition charged for the same program. As a result three students were overawarded an average of $600, and seven students were underawarded an average of $277. In the other four cases, the miscalculations did not affect the award amount.

--Another school had no documentation for cost of attendance calculations for our sample of 22 students. However, nine students in our sample were charged $5,000, nine were charged $5,500, and one student was charged $3,600 for the same training course.

As in calculating award amounts, schools made errors in disbursing them. ED regulations require that in disbursing grant awards, schools must divide the total award amount by the number of academic terms and make at least two payments in the award year. Unless an institution is retroactively disbursing funds for completed academic periods, the total award amount cannot be credited to the school's operating account in one lump sum.

In reviewing disbursements for sample students, we estimate such errors as the following occurred at 566, or 49 percent, of the schools:

--Miscalculated disbursements.

--Second disbursement made before completion of required term or hours.

--Disbursements not made in multiple payments.

--Disbursements made without adequate internal controls.

Because of the disbursement errors, some students received more than the award amount while others received less than the award amount. In addition, schools obtained funds earlier than they should have. For example:

--One school miscalculated the Pell Grant disbursements made to 13 of our 21 sample students. As a result, seven students received $2,727 more than the award amount and six students received $2,008 less than the award amount. We could not verify the award computation and disbursement for one sample student because the financial aid file was incomplete. This school also made seven second-payment disbursements before the required clock hours were earned. These funds were deposited in the school's operating account before the school was eligible to receive them.

In other instances, students either never received the portion of the grant intended for living expenses or received it late in one lump sum. For example, at one school, a student's award included $940 for subsistence expenses. The school gave the student the award in one lump sum, 21 days before she graduated.

REFUNDS WERE OFTEN CALCULATED INCORRECTLY, UNTIMELY, AND SOMETIMES NOT MADE

Title IV participating schools must meet standards of financial responsibility, which include meeting all financial obligations including refunds. ED's Federal Student Financial Aid Handbook states that a title IV participating school is considered financially responsible if, among other things, it meets its refund obligations, to both the student and title IV program, according to the refund policy of the school's accrediting agency. The accrediting agencies, in turn, require that schools establish and adhere to a definite, equitable refund policy that conforms to the accrediting group's minimum standards.

Regulations also require that, if a student is due a refund under the school's refund policy and the student received title IV financial aid, a portion of the refund be returned to the school's title IV financial aid bank account. In addition, refunds must be timely. According to accrediting guidelines, schools must refund money due within 30 days after the student terminates.

Many schools did not follow these requirements. We estimate that 899 schools, or 77 percent of the 1,165 schools, were not complying with one or more of the requirements in the following ways:

--300 schools, or 26 percent, did not conform to refund guidelines dictated by their respective accrediting agency.

--499 schools, or 43 percent, incorrectly computed refunds; and 266 schools did not maintain necessary records to compute refunds.

--466 schools, or 40 percent, made untimely tuition refunds.

--399 schools, or 34 percent, had not made refunds to either students, financial aid accounts, or the bank.

Refund policies did not conform to accrediting requirements

We estimate that the refund policies of 300 schools did not fully comply with the standards set by the accrediting guidelines. An estimated 266 of the 300 schools did not conform to the accrediting agencies' as well as ED's requirement that a refund must be calculated as of a student's last day of actual

attendance. Even when the school's written policy conformed to standards, the day-to-day practice often varied from the requirement. As a result, these schools refunded significantly lesser amounts to students and/or the federal government than did their counterparts whose refund practices conformed to standards.

One school, instead of the accrediting standards, implemented the refund policies required by the four states which licensed schools in surrounding areas where they recruited students. We reviewed one policy used by the school and noted that the school collected substantially more from students who dropped out under the state policy than under the accrediting agency's policy. For example, if a student had enrolled at a contract price of $3,995 and dropped out within the first week of the course, the school could retain $1,093 under the state policy, but only $300 using the accrediting policy. The school described this refund policy in its annual reports to the accrediting agency, but apparently had not been instructed to alter it.

Some schools had refund policies which tended to minimize the amount refunded, but which still complied with accrediting standards. One accrediting commission had vague refund guidelines that allowed school officials to determine what constituted a reasonable retention amount. One school accredited by this commission gave no refund to students dropping out after the first week of a 12-week term and refunded one-half the tuition if a student dropped out in the first week. For example, if a student attended 1 week before dropping out, the school could keep up to $860, including enrollment fee, supplies, and tuition, depending on the course of study.

We question whether a refund policy is "equitable," as required, when no refund is made if a student drops out after the first week of a 12-week term. In contrast, applying the refund guidelines of another major accrediting commission, the above school could have retained no more than 10 percent (a maximum of $300) for a first week dropout; thereafter, in addition to a $100 enrollment fee, the school could have kept 25 percent of the tuition for drops within the first 25 percent of the course, 50 percent for drops within 26 to 50 percent of the course, and 100 percent thereafter.

Refunds computed incorrectly

Some refunds were miscalculated at an estimated 499 schools. In most instances, students and the federal government were under-refunded moneys due to them.

Most of these errors occurred when school officials used an earlier starting or later leaving date than attendance records showed, increasing the amount of tuition owed to the school. That is, a student who actually attended 2 months may have been charged for 3 months' tuition. By counting an extra month of attendance, the percentage of tuition the school was able to retain often increased, as shown below.

--One student entered classes on November 18, 1980, and dropped out 3 weeks later on December 6, 1980. According to the school's refund policy, it was entitled to keep $560, 30 percent of the tuition. However, according to school officials, they erroneously calculated attendance time from September 15 to December 6 (11 weeks) which allowed them to retain 70 percent of the tuition due. Since only $350 had been disbursed to the student's account, to collect the additional tuition, the school made three more Pell disbursements to the student's account on January 13, June 24, and August 21, 1981, for $1,116 ($556 more than the school should have retained had the refund been calculated according to the student's actual time of attendance).

As a result of errors similar to the above, schools over- and under-refunded moneys as illustrated below.

--Six of the 21 student accounts due refunds at one school were under-refunded, and four others were over-refunded. These miscalculations represented about $4,166 under-refunded to Pell, $1,027 over-refunded to students' GSL accounts, and $49 over-refunded to students.

Additionally, we estimate that 266, or 23 percent, of the 1,165 schools failed to maintain records needed to accurately compute and/or verify certain student and title IV refunds. Disbursement and receipt records were frequently missing, incomplete, or inaccurate. As a result, the refund errors discussed may have occurred with greater frequency than indicated.

Refunds were often untimely and sometimes not made

Although refunds were eventually made at most schools, at 466 schools, or 40 percent, they were frequently untimely. Elapsed time between student termination and date of refund ranged from 2 months to 2 years. Furthermore, a number of refunds, although overdue, were not made until our visit or shortly before. One school made refunds to title IV programs from 8 to 21 months after the students' last day of attendance.

At another school we observed the following, similar to practices existing elsewhere.

--Twenty six of the 36 students in our sample did not complete training, and 17 were due a refund. For 14 of the 17 students, refunds were untimely, the time lapse ranging from 6 months to 2 years between a student's termination and the refund. After we requested copies of the canceled checks, the school determined that these refunds were never made. (Four of these refunds, resulting from our audit, were almost $3,000.) As a result, the school issued refund checks to the students' GSL lender bank, the guaranteeing agency (the student had defaulted on the loan), and the school's servicing agent to reduce the balance due on the NDSL promissory note.

We estimate that at 399 schools, or 34 percent, some refunds were never made. (Most of these schools also were often untimely when they made refunds.) This failure to make refunds resulted in thousands of dollars improperly held by schools at the expense of students, the federal government, and the GSL lenders. For example:

--A school was unable to provide canceled checks to support four refunds it claimed to have made for $1,834. One was a subsistence check to a student, one was a Pell Grant refund, and two were NDSL refunds. Three other NDSL refund checks of $6,267 were still outstanding according to the school's bookkeeper. Two of these three checks were dated December 29, 1981, and February 22, 1982, months before our November 1982 visit. Although the school gave us repayment schedules showing that the students' loan balances had been reduced by the refunded amounts, we question whether the students were told of the reduced repayment obligation. One repayment schedule had not been signed by the student as required to indicate his awareness of the reduction. Another student's records included two repayment schedules, each with a different loan balance.

Also, for our sample of 21 students at one school, the school claimed to have made 15 cash payments of $14,087 to students for subsistence; 8 refunds of $3,128 to the financial aid account; and 1 refund of $512 to the GSL lender. However, these payments were not reflected in the school's student financial aid records, nor was the school owner able to produce canceled checks or other verification that the payments had been made, despite several requests for such documentation by us.

CONCLUSION

Many schools did not adequately fulfill their responsibilities for acting as a trustee for title IV funds in the day-to-day administration of the Pell Grant program. Although the reasons for errors in calculating and disbursing Pell Grant awards and refunds often could not be determined, in many cases they appeared to stem from a lack of understanding or differing interpretations of title IV regulations or clerical errors. Although we cannot project the probable amount of moneys involved, our examples indicate that schools improperly retained thousands of dollars at the expense of students and the federal government. We believe improved monitoring of schools is needed to better assure that they comply with these requirements. (Recommendations concerning monitoring are contained in ch. 4.)

CHAPTER 4

MONITORING AND ENFORCEMENT OF PROPRIETARY SCHOOL COMPLIANCE WITH PELL GRANT REGULATIONS ARE INADEQUATE

ED requires that all participating schools be independently audited by a public accounting firm at least once every 2 years, that all title IV participating schools be licensed by the state in which they operate, and that they be approved by an ED-recognized accrediting association. In its efforts to assure that schools comply with various Pell Grant program requirements, ED conducts on-site program reviews at some schools each year. However, as evidenced by the matters discussed in earlier chapters, ED's program reviews have not provided the degree of assurance needed that schools are complying with Pell Grant regulations. ED has limited staff resources to conduct on-site program reviews.

Also, based on our review of the efforts of state licensing agencies and accrediting associations, we believe these groups offer little potential for assisting ED in assuring that schools are complying with requirements. State licensing agencies are hampered by staff shortages which preclude frequent inspections of a large number of schools. According to accrediting associations, the accrediting process provides assurances only at a given point in time and they are not responsible for continuously monitoring school activities, especially concerning compliance with federal laws and regulations.

Independent audits offer good potential for serving ED's need because they are to be performed at each school every 2 years. However, ED lacks assurance that the audits address compliance matters.

ED'S LIMITED RESOURCES PRECLUDE FREQUENT VISITS TO A LARGE NUMBER OF SCHOOLS

ED's Office of Program Review and 10 regional offices conduct on-site evaluations at postsecondary institutions. According to ED, each school should be reviewed once every 3 years. The reviews examine the institutions' administrative capabilities, program compliance, and accounting practices to assess stewardship of federal funds. Resource limitations (both personnel and monetary), however, preclude frequent program reviews at a large number of schools.

In fiscal year 1981, for example, program review visits were made at 708 of 6,986 participating title IV schools. We believe that the large number of schools to be reviewed by the relatively small number of reviewers--who are also responsible for a number of other duties including providing technical assistance, preparing visit reports, and answering student complaints--limits ED's ability to adequately monitor school compliance with regulations and assure that promised corrective action is taken when problems are found.

Office of Program Review personnel are responsible for monitoring all institutions (not just proprietary) that receive funds from title IV postsecondary education programs. During fiscal years 1981 and 1982, of the 6,986 and 5,407 schools participating in title IV programs, 1,725 and 1,750, respectively, were proprietary. During this same period, the Office of Program Review had about 50 people nationwide to conduct program reviews. According to ED data shown below, the office made program reviews at 18 percent of the proprietary schools participating in fiscal year 1981 and 16 percent of the proprietary schools in 1982. Although a small percentage of the proprietary schools were reviewed in these years, they represent a large proportion of the total schools reviewed by ED.

Fiscal Years 1981 and 1982
Program Review Activity[a]

		Proprietary schools		Other schools		
Year	Number of reviewers	Participating	Reviewed	Participating	Reviewed	Total reviews
1981	48	1,725	306	5,261	402	708
1982	52	1,750	283	3,657	238	521

[a]According to information provided by an ED Office of Program Review official, that office had an estimated 51 people in fiscal year 1983 and 57 people in fiscal year 1984 to conduct program reviews. In fiscal year 1983, 648 program reviews were made, and for the first 8 months of fiscal year 1984, 468 reviews were made; 6,671 and 6,846 schools, including proprietary and nonproprietary, participated in title IV during the respective years. (A breakout of the number of program reviews between proprietary and nonproprietary schools was not readily available.)

A number of schools have never had a program review by ED despite actively participating in the Pell program for a number of years. We estimate that about 400 of the 1,165 schools in our universe had never been reviewed by ED program reviewers and about 92 percent had participated in the Pell Grant program for at least 3 years.

Staffing limitations also hamper ED's ability to assure that corrective action is taken when program review teams find problems. Normally, ED requests the school to advise it in writing of the corrective action it plans to take. Our review of 15 school files at the Office of Program Review showed that problems identified by program reviews were usually reported by the schools to have been corrected within less than a year. Generally, the school is not revisited to see if the action has been taken.

According to an official in ED's headquarters office, the primary method of followup on violations identified during a program review is to see if they have been corrected at the next program review or independent audit. As indicated below, however, the promised corrective action may not always occur.

A program review at one school in February 1975 identified a number of problems demonstrating a lack of proper controls over the administration of title IV programs, according to the program review report. The school assured ED that it would correct them. Over 2-1/2 years later, in November 1977, ED made another program review and found the same conditions, which the school again promised to correct. Nearly 3 years later, in September 1980, ED made a third program review and again found a "multiplicity" of violations of ED regulations. The 1980 program review report stated the school's past assurances that corrective measures would be implemented in many cases had not been fulfilled.

As a result of the 1980 program review findings, ED took action to limit the school's authority to draw federal funds, requiring that, until problems were corrected, cash requests first be approved by ED's regional office. In July 1982, ED informed the school that it was no longer eligible to participate in federal education programs because the school's accrediting commission had withdrawn its accredited status.

Also, commenting on the ability to properly follow up on previous program violations, a Region V Office of Program Review official told us that the region simply does not have enough staff to do so. While the Office of Program Review generally uses the independent biennial audits to follow up on previously identified program violations, this official believed that presently, independent audits do not serve as a good monitoring tool because of apparent weaknesses (discussed later) in their coverage and reporting of compliance with program requirements.

RESOURCE SHORTAGES AT STATE LICENSING AGENCIES LIMIT THEIR MONITORING ACTIVITIES

Pell Grant regulations require that schools be legally authorized to provide postsecondary education in the state in which they are located. Typical areas covered by state licensing requirements include

--equipment and facilities;

--curriculum;

--administrative and instructional staff;

--student enrollment policies and practices;

--student tuition and refund policy;

--advertising, promotional literature, and publicity; and

--business practices.

While ED does not rely on state licensing agencies to monitor school compliance with federal regulations, the licensing agencies do attempt to periodically inspect schools they license to assure compliance with licensing requirements. However, many of the 12 state licensing agencies in our review had few staff available for monitoring relative to the large number of schools in their states. Until 1982, for example, one state agency had two persons to monitor 214 trade and business schools. For the first 5 months of 1981, these officials visited only four schools. In another state, two persons were assigned to monitor 278 business, trade, and correspondence schools. These schools were visited at most once every 3 years.

Another state licensing agency had to eliminate routine visits to schools. According to officials of the licensing board for cosmetology, budget cuts have caused them to reduce their monitoring efforts. Further, their inspectors are all part time, and no school visits are being made unless the board receives complaints about a school or learns that a school has a high failure rate.

These resource shortages at licensing agencies limit their effectiveness in assuring that schools are complying with licensing requirements.

ACCREDITING ASSOCIATIONS DIFFER WITH ED OVER THEIR ROLE AND RESPONSIBILITIES

Accreditation is one method used by ED to insure a basic level of educational quality. Without accreditation, schools cannot receive title IV funds. However, during a prior review of accreditation, we found fundamental differences between ED and the accrediting associations on the perceived role and responsibilities of accreditation. We reported[1] that ED's criteria for recognizing an accrediting association include a requirement that associations demonstrate the "capacity and willingness to foster ethical practices among the institutions it accredits, including equitable student tuition refunds and nondiscriminatory practices in admission and employment." ED maintained that educational quality includes assurances of institutional integrity and ethical practices. Accrediting organizations as represented by the National Association of Accrediting Agencies believed at that time that the accrediting process provides assurances only at a given point in time, and their responsibilities do not include continuously monitoring school activities, especially concerning compliance with federal laws and regulations. According to an official of the Association of Independent Colleges and Schools, a major accrediting organization, the above stated position has not changed.

In our January 1979 report, we discussed numerous program violations attributable in part to the three principal parties in the eligibility process--ED, state licensing, and accrediting associations--either being unwilling and/or unable to monitor school practices or relying on each other to perform this function. The violations included

--questionable academic progress standards;

--induced enrollments through false or misleading advertising, or other questionable practices;

--questionable admission policies; and

--questionable refund policies.

As discussed in chapters 2 and 3, these and other improper practices still occur.

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[1]What Assurance Does ED's Eligibility Process Provide? (HRD-78-120, Jan. 17, 1979).

On-site visits are a part of the process normally followed by accrediting associations in approving a school initially for accreditation. Follow-up visits, however, are generally not made. Based upon our findings at the sample schools, we estimate that probably none of the 1,165 schools in our universe were revisited before accreditation renewal time, which generally occurs some 5 to 6 years later.

The primary form of monitoring performed by accrediting associations is that schools must submit an annual report covering overall operations, including student enrollment, and any changes in personnel or program offerings. These reports, however, were sometimes in error. For example, we found erroneous information being reported at 166 schools.

An official from the Association of Independent Colleges and Schools Accrediting Commission told us that, following initial accreditation, on-site monitoring is generally done on an exception basis only. Further, the association does not have the staff necessary for such monitoring, nor does it view its role to include monitoring of the use of federal funds.

While the accreditation process may provide adequate assurance of educational quality and institutional integrity at the time accreditation is granted, the 5- to 6-year life generally given accreditation allows much time for deterioration of the conditions upon which it was initially granted. We found that many of the 1,165 schools in our universe not only failed to comply with federal regulations, but also often violated, in day-to-day practices, the standards established by their respective accrediting commissions. These violations included

--improper admission practices at 732 schools,

--improper refund practices at 899 schools,

--inflated job placement statistics at 533 schools, and

--incomplete or incorrect data on annual reports at 166 schools.

Since accrediting associations do not view monitoring of school compliance with federal regulations as their responsibility, in our opinion, accreditation does not provide assurances that federal requirements are adhered to.

BIENNIAL AUDIT REPORTS DID NOT ALWAYS ADDRESS COMPLIANCE MATTERS

ED regulations require that institutions receiving title IV funds contract with independent auditors to conduct an audit for fiscal integrity and compliance with all applicable laws and regulations at least once every 2 years. Pell Grant regulations require these audits to be performed in accordance with ED's "Audit Guide" for the program. An institution's eligibility to participate in the title IV program is conditioned on its compliance with the regulations. However, the biennial audit reports that we reviewed, covering the schools in our evaluation, generally did not cover compliance matters required to be tested by the audit guide. We found numerous compliance problems at schools which were not disclosed in the audit reports on these schools. We used the criteria in ED's audit guide to assess what should be disclosed in the audit reports. Reviewing the adequacy of ED's audit guide, however, was not within the scope of this review.

Independent audits either inadequately address compliance matters or do not report compliance findings

ED's Pell Grant audit guide requires that independent auditors perform sufficient testing to

--verify the institution's eligibility;

--verify the accuracy of refund calculations and disbursements to students and the federal government;

--verify student eligibility for receipt of a Pell Grant, including whether students met admission requirements and academic progress standards;

--determine if the cost of attendance is calculated consistent with program regulations; and

--see whether the institution correctly computed Pell Grant awards.

According to our findings at schools, independent auditors, in many cases, apparently are not adequately addressing compliance matters in their audits or are not reporting to ED the problems they find. In either case, however, ED's audit guide, which auditors are to follow, requires that compliance matters be reviewed and instances of noncompliance with applicable laws and regulations be reported. Copies of all audit reports should be provided to ED's Regional Inspector General and the institution.

We reviewed the most recent independent audit report for 28 schools and compared them with our findings on the schools' compliance or noncompliance with the audit guide requirements. Of the 28 reports reviewed, 16 contained no violations of compliance matters. For these same 28 schools, and in many cases for the same program years, however, we found instances of noncompliance at 26 which should have been reported under ED's Audit Guide. For example, the independent audit report for a beauty school contained no findings or recommendations and stated that procedures were adequate and according to program regulations. However, during our review of the same school, we found a number of major program violations, including admission of students who did not meet school or Pell Grant admission requirements, nonenforcement of academic progress standards, improper retention of refunds due students and the federal government, and incorrect disbursement of awards.

Our review of the IG's efforts in this area shows that while the IG has determined that many of the independent audits are unacceptable, he has not developed the cause for the less than acceptable work. ED Regional Inspectors General report on a case-by-case basis to the respective audit firms the specific nature of the identified deficiencies, but these data are not accumulated to permit the IG to assess common problems.

Despite the emphasis in the audit guide on reviewing compliance matters, the independent audit reports we reviewed addressed primarily fiscal integrity, although opinions regarding overall approval of operations generally covered both fiscal and compliance issues. Additionally, the reports were primarily financially oriented.

Part of the reason for the lack of compliance findings in independent audits may be attributed to the auditors' failure to visit the school being audited--true for 5 of the 28 audit reports we reviewed. In these cases, the reports were based on audits of financial records maintained at centralized locations, such as corporate or financial aid consultants' offices. In our opinion, on-site visits are needed to adequately evaluate such compliance requirements as enforcement of admission and academic progress standards and effectiveness of the system of internal controls because the records necessary to verify these requirements usually are located only at the schools.

The Inspector General for ED reviews the quality of audits performed by independent public accounting firms by conducting a number of quality assessment and desk reviews each year. Quality assessment reviews (QARs) examine, on a sample basis, the

quality of the audit work performed by public accounting firms. This includes determining whether (1) workpapers were adequately prepared, (2) sufficient supporting evidence was developed, and (3) compliance reviews required by ED audit guidelines were performed. Desk reviews examine each audit report submitted by public accountants to make sure the report is complete in terms of required opinions and statements.

As stated in the IG's 1983 audit plan, the objectives of the QAR program are: (1) to determine, based on a sample of audits reviewed, the extent that audits by independent public accountants can be relied on in assessing the administration of student financial aid programs by postsecondary educational institutions; (2) to determine the extent that these accountants adhere to the audit guides and standards applicable to the audits; and (3) to serve as an incentive to them for following the applicable audit guides and standards. To this end, in fiscal year 1983 the IG established a requirement to review the workpapers supporting 5 percent of the audit reports produced. In prior years, this requirement was 3 percent. During fiscal year 1981, the IG performed 144 QARs on the 4,809 audit reports submitted. In 1982, the number of QARs performed was 118 for 3,099 audit reports submitted. (For both years the figures above refer to both proprietary and nonproprietary schools.)

Information on the results of desk and quality assessment reviews indicates that independent auditors are, in some instances, not adequately addressing compliance matters. For example, in fiscal year 1982, 6 percent of the total reports desk reviewed were subsequently rejected. In two regions, the rejection rate exceeded 9 percent. During this same period, 27 (or 23 percent) of the more intensive 118 QARs performed found problems with the audit work which were serious enough to cause rejection.

According to both regional and central office IG officials, reports were rejected for many reasons. In one extreme case, the public accountant had no workpapers, which serve as a record of the results of the examination and the basis of the auditor's opinions, to support the report. More commonly, reports were rejected because they did not (1) provide adequate coverage or testing of compliance issues, (2) analyze cash flow, (3) use the correct audit guide or any other guide, (4) express an opinion, or (5) follow generally accepted government audit standards.

According to ED, under the IG's policy, the Regional IG must promptly notify independent auditors when their reports are deficient and inform them as to why the reports were rejected. If a report contains major deficiencies, a copy of the rejection

letter is usually provided to the audited school as well, thus informing them that their continued funding may be in jeopardy pending receipt of a complete and accurate audit report. ED, in commenting on a draft of this report, said that in most cases revised audit reports are received within 30 days of the notification. Additionally, ED said that when an audit report is rejected, all subsequent audits submitted by the individual or firm are closely scrutinized to ensure adherence to prescribed standards.

Also, the information reported to the IG central office from the 10 regions on the QAR efforts is primarily monthly statistical counts of the number performed and the time used. Regions do not summarize and report the nature of the QAR findings or the reasons audit work is rejected. In our opinion, periodic reporting of such data is needed to provide the IG the kind of information needed to achieve the objectives of the QAR effort, which is to assess the extent that the work of public accountants can be relied upon to accurately assess the administration of Pell Grant and other student financial aid programs.

CONCLUSIONS

Better monitoring and enforcement of proprietary school compliance with Pell Grant regulations are needed. Independent biennial audits provide a means for improved monitoring. Based on our work and ED's IG reviews of independent audits, however, independent biennial audits required of all schools fall short of realizing their full potential because they do not always adequately address compliance issues or fully report the findings, as required, to ED.

In our view, ED's IG, who already reviews the quality of the public accountants' reports, is in the best position to identify why the quality is not better than it is. In this regard, we believe the IG needs to more effectively utilize the QAR program. The information currently being gathered and reported is primarily statistical data on the number of reports registered and QARs performed. We believe the IG should also systematically gather information on why the reports and audit work of independent public accountants are rejected. In our opinion, the IG needs such information to achieve the objectives of the QAR program of assessing the extent to which the work of public accountants can be relied upon, and to assist the public accountants in improving the quality of their audits. To the extent that certain problems may be widespread, this information would provide feedback to the IG and the American Institute of Certified Public Accountants on how best to resolve these matters.

RECOMMENDATION TO THE SECRETARY OF EDUCATION

We recommend that the Secretary request that the IG (1) gather information on why regional offices reject the audit work and reports of independent public accountants and (2) use the analysis of this information as a basis for assessing and, when necessary, increasing the quality and reliability of public accountant audit work. In regard to this latter point, a collaborative effort with the American Institute of Certified Public Accountants would seem to be most useful. The overall result of this effort would be the development of better information for ED to use in monitoring compliance. Such information, together with ED's program reviews and IG audits, should allow ED to better assure that problems such as those noted regarding recruiting practices, adherence to academic progress standards, and administering federal funds are identified and remedial or other enforcement action is taken where appropriate.

AGENCY COMMENTS AND OUR EVALUATION

ED agreed with our recommendation and said that steps consistent with it have been taken. According to ED, the IG initiated a study in September 1983 entitled, "Ways to Maximize the Effectiveness of Independent Public Accountant (IPA) Work and Streamline IPA Report Processing." The purpose of the study was twofold: (1) to identify ways of increasing the benefits that derive from IPA work and (2) to cut down on required processing times without sacrificing the quality of these reports.

ED said that in line with our recommendation, this study will be expanded to develop an approach for establishing a central control system in the IG's headquarters. The system will provide, according to ED, for the accumulation and analysis of the data necessary to pinpoint major or recurring deficiencies and enable the IG to initiate prompt corrective action. The ultimate goal of this project is to increase the thoroughness, and hence the reliability, of the independent auditor's work.

A draft of our report contained two other proposals which were predicated on certain aspects of pending legislation (S. 1510) dealing with audits of organizations receiving federal funds. This legislation would have required that certain schools be subject to a biennial single audit. Because of late modifications to that proposed legislation limiting such audits to state and local governments and their subgrantees and its apparent inapplicability to audits of proprietary schools, we have deleted those proposals from the final report.

VIEWS OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

We discussed our findings and recommendation with an Institute representative, who advised us that the Institute would be willing to work with the IG to implement our recommendation. He said that the Institute's Continuing Professional Education Division is developing a training program for auditing student financial aid programs, including the Pell Grant program, that should be helpful in auditing the compliance aspects of these programs.

SAMPLING AND STATISTICAL METHODOLOGY

To assure that the schools and students included in our sample were representative, we conducted a multistage random sample. We first judgmentally selected 15 states which constituted a large percentage of the $278 million in Pell Grant funds awarded to the 1,725 proprietary schools nationwide in program year 1980-81. These states also provided broad geographical coverage as well as a good mix of sizes and types of schools. The 15-state universe contained 1,165 proprietary schools, which received $185 million, or 66 percent, of the $278 million disbursed.

The 15 states were then clustered into groups comparable to ED's boundaries for regions II, III, IV, V, and IX, and schools were randomly sampled from each group. The number of schools selected from each group was based on a proportional allocation sufficient to give an overall sample large enough to allow us to project the results with a 95-percent confidence level. The universe and sample size is shown in the following table.

ED region	Pell Grant dollars	Number of schools	Number selected
	(millions)		
II	$ 56.6	232	6
III	19.7	166	6
IV	28.5	154	6
V	41.2	275	8
IX	39.0	338	9
Total	$185.0	1,165	35

Students were then randomly sampled at each school. To ensure that we obtained consistent and unbiased information at each school, we sampled from the universe of Pell Grant recipients who were first-time enrollees during the 1980-81 program year. This period was the most recent complete year of Pell Grant operations and allowed us to consider current school policies and increased the likelihood of student records being available for review and of students being available for interview.

The number of students sampled at each school was based on the selection method shown below.

Sample Selection Process for
First-Time Enrollees at Each School

Universe of Pell Grant recipients	Selection interval	Starting point
Under 20	-	All
20-50	Every 2nd	Starting with #2
51-100	" 3rd	" " #2
101-200	" 5th	" " #5
201-400	" 8th	" " #4
401-600	" 12th	" " #8
601-800	" 16th	" " #5

Following this process, we selected a total sample of 761 students at the 35 schools.

Because of the variance in the number of schools within each of the above ED regions, each student sample was weighted based on the number of schools in the region. For example, from region IX's 338 schools, we sampled 9 schools and 159 students. Each of these students received a weight of 37.5556 (338 schools divided by 9 schools). Each student was weighted a second time to reflect the size of the student population at the school from which the student was sampled. That is, a sample of 23 students at a school with 115 Pell Grant recipients would result in a weighting factor of 5.0 per student (115 divided by 23).

These two weights were then multiplied and the resulting weight assigned to each student for the appropriate school. For the example cited, the weighting factor would be 187.7780 (37.5556 multiplied by 5.0). This weighting process was used to project the results to Pell Grant recipients in the 15-state universe of schools.

Because we reviewed a statistical sample of proprietary schools and Pell Grant recipients, each estimate developed from the sample has a measurable precision or sampling error. The sampling error is the maximum amount by which the estimate obtained from a statistical sample can be expected to differ from the true universe characteristic (value) we are estimating. Sampling errors are usually stated at a certain confidence level--in this case 95 percent.

At the 95-percent confidence level, our sample of students was designed so that our maximum sampling errors would not exceed 10 percent. In other words, the chances are 19 out of 20 that the estimates describing the student characteristic will not differ by more than 10 percent from the corresponding true universe characteristic (value).

To show the reader the actual size of the sampling errors, some individual sampling errors were calculated. Estimates which were subject to large sampling errors relative to the size of the estimate and estimates which were crucial to the report findings were examined. The upper and lower limits of these estimates were calculated using the appropriate statistical formulations. These ranges are shown in the following tables.

Table 1

Schools, Students, and Dollars Associated With Inadequate Adherence to Admission Standards

	Estimate	Standard error (+ -)	Estimated range of universe at the 95-percent confidence level
Number of schools that admitted unqualified students	732	(a)	543 to 893
Number of students in universe	123,000	38,118	84,882 to 161,118
Number of unqualified students admitted	14,900	6,109	8,791 to 21,009
Number of students who did not complete training:	59,600	12,591	47,009 to 72,191
Qualified	(49,300)	(9,391)	(39,909 to 58,691)
Unqualified	(10,300)	(5,436)	(4,864 to 15,736)
Cost for 59,600 dropouts	$86 million	$16 million	$70 to $102 million
Cost for 10,300 unqualified dropouts	$13 million	$6 million	$7 to $19 million
Number of students who attended only one term or less	27,900	7,722	20,178 to 35,622
Cost for 27,900 attending one term or less	$25 million	$4 million	$21 to $29 million
Number of schools that admitted students with a baccalaureate degree	133	(a)	53 to 299
Number of schools that admitted students into ineligible programs	.133	(a)	53 to 299

[a]The standard error rate is not shown because the standard error was not equal on both sides of the mean.

APPENDIX I

Table 2

Schools, Students, and Dollars Associated With Inadequate Adherence to Academic Progress Requirements

	Estimate	Standard error (+ -)	Estimated range of universe at the 95-percent confidence level
Number of schools that had no attendance or grading standards	133	(b)	53 to 299
Number of schools that had inadequate standards	166	(b)	74 to 339
Number of schools that failed to enforce standards:	965	(b)	787 to 1,070
Attendance	(866)	(b)	678 to 998
GPA	(399)	(b)	245 to 590
Number of students not meeting standards:	27,100	4,749	22,351 to 31,849
Excessive absences	(22,700)	4,384	18,316 to 27,084
Low grades	(4,400)	2,948	1,452 to 7,348
Cost for 27,100 students:	$68 million	$10 million	$58 to $78 million
Includes Pell funds of	$37 million	$4 million	$33 to $41 million

[b]See footnote a on previous page.

Table 3

Schools, Students, and Dollars Associated With Questionable Recruiting Practices

	Estimate	Standard error (+ -)	Estimated range of universe at the 95-percent confidence level
Number of schools with questionable recruiting practices	766	(c)	575 to 920
Type of practice:			
Overstated job placement rates	533	(c)	357 to 718
Offered free scholarships but did not reduce tuition	366	(c)	218 to 556
Used misleading advertising	399	(c)	245 to 590
Number of students guaranteed jobs	2,750	2,484	266 to 5,234
Number of students given scholarships that did not reduce tuition:	11,400	11,960	0 to 23,360
Number of these who dropped out	7,100	9,438	0 to 16,538
Federal payments to schools for 7,100 who dropped out	$3 million	$3 million	$0 to $6 million

[c]See footnote a on page 45.

Table 4

Schools With Various Administrative Errors

	Estimate	Standard error (+ -)	Estimated range of universe at the 95-percent confidence level
Number of schools with incorrect award computations	433	(d)	272 to 622
Number of schools with disbursement errors	566	(d)	387 to 748
Number with refund problems:	899	(d)	713 to 1,023
Did not conform to accrediting guidelines	(300)	(d)	166 to 487
Incorrectly computed refunds	(499)	(d)	328 to 686
Made untimely refunds	(466)	(d)	300 to 655
Did not make refunds	(399)	(d)	245 to 590

[d]See footnote a on page 45.

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APPENDIX II

TYPES OF PROPRIETARY SCHOOLS INCLUDED IN RANDOM SAMPLE[1]

Acting
Art
Broadcasting
Business
Cosmetology
Diesel Mechanics
Electronics
Fashion Design
Law
Medical Technician
Secretarial
Technical[2]
Welding

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[1]Sample was not selected to provide statistical representation by type of school, rather, to represent the universe of 1,165 schools from which sample was drawn.

[2]Includes schools that offered several programs in technical fields, such as computer programming, air-conditioning and refrigeration, and mechanical and architectural drafting.

APPENDIX III

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE ASSISTANT SECRETARY FOR POSTSECONDARY EDUCATION

JAN 24 1984

Mr. Richard Fogel
Director, Human Resources Division
U. S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Fogel:

The Secretary asked that I respond to your request for our comments on your draft report entitled, "Proprietary Schools Do Not Comply With The Department of Education's Pell Grant Program Requirements, dated December 6, 1983.

The enclosed comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

We appreciate the opportunity to comment on this draft report before its publication.

Sincerely yours,

Edward M. Elmendorf

Enclosure

GAO note: Page references have been changed to correspond to the final report.

The Department of Education's Comments
on the General Accounting Office's Draft Report
to the Congress Entitled, "Proprietary Schools Do Not
Comply With The Department of Education's
Pell Grant Program Requirements", dated December 6, 1983

The ED response contains recommended changes in the narrative of the report, addresses the recommendations and provides a corrective action plan.

Editorial Comments

Digest, Page iii, Paragraph 2. It should be made clear that satisfactory academic progress is monitored during a program review and that corrective action is required to take place when necessary.

How the Program Works, Page 2, Paragraph 5. We recommend that the "and" between GSL program and NDSL programs be replaced with a coma and that the end of the sentence read as follows, "...program, College Work Study (CWS) and Supplemental Educational Opportunity Grant (SEOG)."

Page 24, Paragraph 1. We recommend that the first sentence of paragraph 3 be changed to read as follows, "Based on our sample of 35 schools, we estimate that 433 schools..."

Page 24, Paragraph 4. The example given is not one of an incorrect eligibility index. The eligibility index (currently known as an aid index) is based on the applicant's status at the time of filing. The fact that the student subsequently married has no bearing on the student's present eligibility. If she were to apply for the next award year, the spouse's income would be used in determining her financial need. Therefore, recomputation was unnecessary.

Page 25, Paragraph 2. We recommend that the following sentence be corrected, "the total award amount cannot be credited to the school's operating account in one lump sum." The correction should read, "Unless an institution is making retroactive payment, then the total award amount cannot be credited to the school's operating account in one lump sum."

Page 32, Paragraph 1. We recommend that the following sentence be corrected "ED has no standards for how often schools should be reviewed or how long such reviews should take". It should be corrected to reflect the contrary to this statement. There are standards established which stipulate that a school be reviewed once every three years. In addition, there are set procedures and time frames for conducting an initial and followup review.

Editorial Comment Regarding the ED Refund Policy

General provision Section S.668.21 refer to how school refunds are to be distributed among Title IV programs. Section 682.608 and Section 683.87 require that an institution's refund policy be fair and equitable and conform to the requirements of applicable State law and specific refund standards set by the institution's nationally recognized accrediting agency and approved by the Secretary.

The only regulation provided to institutions (that is applicable to all Title IV programs) with regard to refunds is found in Section 668.21 of the General Provisions regulations. This section deals only with the distribution of refunds to Title IV programs after the institution has determined that a refund is called for.

GAO Recommendation

We recommend that the Secretary explore the feasibility of developing criteria that would provide schools a better indication that students admitted on the basis of ability to benefit have the some competency and likelihood of completing training as those admitted on the basis of a high school diploma or GED Certificate. If suitable criteria cannot be developed, ED should seek a legislative change to limit admission to students with a high school diploma or GED Certificate and to permit exceptions only if justified in writing and approved by ED.

Department's Comment

We do not concur. While we believe that institutions and accrediting agencies should constantly look at criteria that will better enable them to determine the "ability to benefit," we believe the Congress has made it quite clear that individuals should have every opportunity to obtain training to prepare them for employment, which is embodied in the open enrollment concept.

It is our position that admission policies should be established by the institutions and/or the States which support, charter or license them. We do not believe that this is an appropriate Federal role.

Once a student is in school we believe regulations for the establishment and enforcement of satisfactory progress standards for institutions published in the Federal Register on October 6, 1983, do address the issue of whether a student has the continuing "ability to benefit."

These regulations require that reasonable standards of satisfactory progress must include certain basic elements and they must conform to the standards set by the institutions's nationally recognized accrediting agency.

The Department recognizes the need for effective stewardship of Federal Funds. However, the Department does not believe it should review and approve the academic progress standards of institutions. In fact the Department believes that such a requirement may constitute an infringement on the rights of postsecondary education institutions. The Department believes that self-regulations by institutions and their accrediting agencies will prevent program abuse at a cost significantly less than would be incurred by the Department.

In addition, the Secretary is also requiring that, in order to be considered reasonable, an institution's standards for a student who is receiving aid under any Title IV programs must be the same as or stricter than the standards used to measure progress for a non-Title IV student who is enrolled in the same program.

With the implementation of these regulations, beginning with the 1984-85 award year, the Department believes it has a better chance of ensuring program integrity.

GAO Recommendation

We recommend that the Secretary require proprietary schools to have a single financial audit performed similar to that provided in S.1510 for nonprofit schools and conduct compliance audits on a sample basis or at schools with indicated problems by either using ED staff or contracting with public accountants, and or other appropriate organizations.

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Department's Comments

We concur. However, it should be noted that nonprofit organizations are no longer included in the latest revision of S.1510 "Uniform Single Audit Act of 1983". In its present form, S.1510 is applicable for only State or local Government or recipient of Federal assistance from State or local Governments. This means that only universities that are part of a State system and receive Federal money from the State would be subject to the requirements of S.1510. The vast majority of nonprofit schools would not come under S.1510.

However proposed Attachment P to OMB Circular A-110, "Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospital and other Nonprofit Organizations", calls for a single audit (financial and compliance audit of Federal funds) of nonprofit schools.

Additionally, to ensure that proprietary schools are receiving the same audit coverage as the nonprofit schools, the Office of Inspector General is presently in the process of issuing a Student Financial Aid (SFA) audit guide that will reflect substantially the same requirements as those in the proposed Attachment P. Publication of the SFA guide is scheduled for February 1984.

GAO Recommendation

We recommend that the Secretary require the Inspector General to (1) gather information on why regional offices reject the audit work and reports of independent public accountants, and (2) use the analysis of this information as a basis for assessing and when necessary, increasing the quality and reliability of public accountant audit work.

Department's Comments

Before responding to the recommendation, we would like to air our concern regarding GAO's discussion of the Office of Inspector General's review of audit reports prepared by independent public accounting firms.

GAO states that the Inspector General central office receives only statistical data on the reviews performed and is not provided information as to why audit work is rejected. However, GAO fails to discuss the actions taken by the regional Inspector General offices on rejected audit reports, thus creating the impression that nothing is done to address identified deficiencies. To the contrary, OIG policy requires that the Regional Inspector General promptly notify auditors

APPENDIX III

when their reports are deficient and inform them as to why the reports were rejected. If a report contains major deficiencies, a copy of the rejection letter is usually provided to the audited school as well, thus informing them that their continued funding may be in jeopardy pending Inspector General receipt of a complete and accurate audit report. In the majority of cases, revised audit reports are received within 30 days of the notification. Additionally, when an audit report is rejected, all subsequent audits submitted by the individual or firm are closely scrutinized to ensure adherence to prescribed standards.

Regarding GAO's recommendation, we concur and have already taken steps in this direction. Specifically, the OIG initiated a study in September 1983 entitled, "Ways to Maximize the Effectiveness of Independent Public Accountant (IPA) Work and Streamline IPA Report Processing." As the title suggests, the purpose of the study was twofold; firstly, we wanted to identify ways of increasing the benefits that we derive from IPA work and, secondly, we wanted to cut down on required processing times without sacrificing the quality of these reports.

In line with GAO's recommendation, this study will be expanded to develop an approach for establishing a central control system in Inspector General headquarters. The system will provide for the accumulation and analysis of the data necessary to pinpoint major or recurring deficiencies and enable us to initiate prompt corrective action. Our ultimate goal on this project is to increase the thoroughness, and hence the reliability, of IPA audit work.

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